

Message Text

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ACTION NEA-10

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INFO AMCONSUL KARACHI
AMCONSUL LAHORE
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E.O. 11653: N/A
TAGS: EFIN, PK
SUBJECT: PAY INCREASE FOR GOVT EMPLOYEES

SUMMARY: FINANCE MINISTER PIRZADA APRIL 19 ANNOUNCED A \$179 MILLION PAY INCREASE COVERING 1 MILLION GOVERNMENT CIVILIAN EMPLOYEES AND ALL MILITARY PERSONNEL. THE RAISES, WHICH HE DESCRIBED AS MORE GENEROUS THAN THE LONG-AWAITED PAY COMMISSION RECOMMENDATION, AVERAGED 26 PERCENT WITH A RANGE FROM 55 PERCENT FOR THE LOWEST GRADES TO 10 PERCENT FOR SOME SENIOR OFFICIALS. THE COST OF THE PAY PACKAGE IS ROUGHTLY EQUAL TO THE WHOLE OF THE GOP BUDGET DEFICIT PROJECTED FOR FY 1977. IT IS ALMOST CERTAIN TO ADD TO INFLATION.
END SUMMARY.

1. FEDERAL FINANCE MINISTER, ABDUL HAFEEZ PIRZADA ANNOUNCED APRIL 19 AN INCREASE IN SALARY AND CERTAIN ALLOWANCES FOR GOVERNMENT OF PAKISTAN EMPLOYEES WHICH HE ESTIMATED WOULD COST RS. 1770 MILLION (\$179 MILLION). OVER ONE MILLION CIVILIAN EMPLOYEES, AS WELL AS ALL MILITARY
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PERSONNEL, ARE TO BE COVERED BY THE INCREASE. THIS WOULD REPRESENT AN AVERAGE INCREASE FOR DIVILIAN EMPLOYEES OF 26 PERCENT, INCREASING THE GOVERNMENT'S CIVILIAN WAGE BILL FROM RS. 4910 MILLION TO RS. 6210 MILLION. THE AMOUNT OF THE INCREASE IN WAGES OF MILITARY PERSONNEL WAS ESTIMATED AT RS. 470 MILLION. PIRZADA DESCRIBED THE INCREASE AS MORE GENEROUS THAN THE RECOMMENDATION OF THE

PAY COMMISSION.

2. THE PAY RAISES WILL BE GRANTED UNDER A FORMULA WHICH GUARANTEES THAT EACH EMPLOYEE WILL RECEIVE AT LEAST 10 PERCENT MORE THAN THE TOTAL OF HIS OLD BASE SALARY PLUS ALL COST OF LIVING ALLOWANCES GRANTED SINCE 1973. IN PRACTICE, EMPLOYEES IN THE LOWER GRADES ESPECIALLY WILL RECEIVE SUBSTANTIALLY MORE THAN A 10 PERCENT INCREASE. TAKING INTO ACCOUNT NORMAL FRINGE BENEFITS AND ALLOWANCES, THE RAISE FOR THE LOWEST GRADE OF CIVILIAN AND MILITARY EMPLOYEES COMES TO 55 PERCENT. SENIOR OFFICERS WILL ALSO RECEIVE SOME ADDITIONAL BENEFIT FROM INCREASES IN HOUSING ALLOWANCES, BUT THE FULL RAISES AT THE TOP OF THE GOVERNMENT SCALE ARE LIKELY TO LEAVE MOST SENIOR OFFICERS NOT BETTER OFF THAN THEY WERE FOLLOWING THE LAST COST OF LIVING INCREASE IN 1975.

3. THE NEW PAY SCALES THUS CONTINUE THE TREND APPARENT IN THE LAST 5 YEARS TO REDUCE THE DIFFERENTIAL BETWEEN THE LOWEST AND HIGHEST PAID GOVERNMENT EMPLOYEES. PIRZADA SAID THAT THE RATIO BETWEEN THE HIGHEST AND LOWEST GOVERNMENT EMPLOYEES HAD BEEN 83:1 IN 1947 AND 26:1 IN 1972. NOW, THE RATIO STOOD AT 13:1, AND TAKING INTO ACCOUNT NORMAL PROMOTION POLICY AND TAXES THE "REAL RATIO" WAS 9:1.

4. PIRZADA SAID THAT FURTHER REPORTS COVERING EMPLOYEES IN GOVERNMENT CORPORATIONS AND SENIOR BANK OFFICIALS WOULD BE ISSUED IN "SOME DAYS." WE EXPECT THAT THESE LIMITED OFFICIAL USE

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EMPLOYEES WILL BE GIVEN INCREASES AT LEAST AS GENEROUS AS THOSE RECEIVED BY THEIR COUNTERPARTS IN THE CIVIL SERVICE. IN ADDITION, DESPITE THE GOP LABOR MINISTRY'S STATEMENT TO US THAT THEY ARE MAKING NO ASSEPTIONS ABOUT THE EFFECT OF THESE MOVES ON THE PRIVATE SECTOR, WE BELIEVE THAT PRIVATE EMPLOYERS WILL BE UNDER HEAVY PRESSURE TO FOLLOW THE SAME PATTERN. LABOR MINISTRY OFFICIALS SAY THEY HAVE NO GOOD ESTIMATES OF HOW MANY EMPLOYEES WOULD BE AFFECTED BY SUCH RAISES.

5. NONE OF THE MAJOR LABOR ORGANIZATIONS HAS HAD ANY PUBLIC REACTION TO THE NEW PAY SCALES. TWO MINOR GROUPS WERE QUOTED IN THE URDU PRESS AS SAYING THEY WERE INADEQUATE; OTHER LABOR CONTACTS HAVE INDICATED PRIVSWELY THAT THEY PLANNED TO USE THE RAISES IN THEIR EMPLOYEE-MANAGEMENT BARGAINING.

6. THE NEW PAY INCREASE WILL ALMOST CERTAINLY HAVE AN INFLATIONARY IMPACT. THE ESTIMATED COST TA THE PAY

INCREASE IS EQUAL TO NEARLY 5 PERCENT OF MONEY SUPPLY (CURRENCY AND DEMAND DEPOSITS). IT IS ALSO ROUGHLY EQUAL TO THE BUDGET DEFICIT ORIGINALLY PROJECTED FOR FY 1977 (RS. 1692 MILLION). IN ADDITION TAX CHANGES INTRODUCED DURING THE YEAR, A RS. 120 MILLION PENSION INCREASE ANNOUNCED IN JANUARY, AND AN ESTIMATED REVENUE LOSS TO THE PROVINCES OF PERHAPS RS. 100-140 MILLION FROM THE RECENTLY ANNOUNCED BAN ON LIQUOR AND GAMBLING WILL ALSO ADD TO THE DEFICIT. THE ECONOMIC DISLOCATION DUE TO THE POLITICAL CRISIS WILL ALSO TEND TO INCREASE INFLATIONARY PRESSURES. WE HAVE NO WAY OF ESTIMATING THE PRECISE EFFECT OF SALARY INCREASES IN THE PRIVATE SECTOR, BUT THEY WILL OF COURSE ADD TO THE PRESSURES. THE FINANCE MINISTER, WHEN ASKED BY A JOURNALIST HOW HE PROPOSED TO PREVENT INFLATION FROM FOLLOWING ON THE WAGE INCREASE, SAID THAT PRODUCTION INCREASE IN SUCH VITAL SECTORS AS AGRICULTURE, POWER, WATER, GAS, AND LIMITED OFFICIAL USE

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FERTILIZER, AND "STREAMLINED" TAX PROCEDURES WOULD TAKE CARE OF THE PROBLEM. HE DENIED THAT ANY FRESH TAXES WERE IMMINENT. WE ASSUME THAT THE SIZE OF THE PAY PACKAGE WAS INFLUENCED BY THE POLITICAL SITUATION. FURTHER COMMENTS ON ITS POLITICAL RAMIFICATIONS ARE BEING REPORTED SEPARATELY.
BYROADE

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